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Incentive Marketing

A BILL PUBLICATION

INCENTIVE TRAVEL

INCENTIVE MARKETING • DEALER INCENTIVES • CORPORATE GIFTS • PREMIUMS • ADVERTISING SPECIALTY

- Computer sales: Where training is crucial
- Dealer incentive survey
- Do pay raises satisfy workers?
- Pullout guide to New York's motivation show

Today's Woman

CHANGING THE FACE OF COSMETICS

April 1987

83rd Year, Vol. 161
Number 4

Cover Photo:
Comstock

Thailand, one of Asia's emerging destinations. See page 62.

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- While pay raises put more money in our pockets, they may hurt job satisfaction, according to a new study. Recognition awards do more to spur productivity.
- As international terrorism caused a significant drop in American travel to Europe last year, many opted for Canada and the Pacific Islands instead.
- New promotions offer supermarket shoppers the instant gratification of cash, but they also pose problems.
- The dollar has declined, but planners considering overseas travel can still find some good buys.
- PMAA Update '87 conference offers tips on coordinating promotion and advertising efforts to yield brand loyalty.

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Sales jump more than 18% in the average dealer promotion, while median cost is 10% of incremental sales.

FACTS UPDATE

Despite signs of a sluggish economy, marketers continue to boost spending on programs designed to motivate dealers and distributors.

Six out of 10 executives in **Incentive Marketing**'s dealer incentive survey are increasing expenditures in 1987, with budget estimates suggesting a 6.2 percent gain over last year's spending. In 1986, expenditures rose 5.3 percent to a new high of $2.35 billion—65 percent for merchandise and the rest for travel.

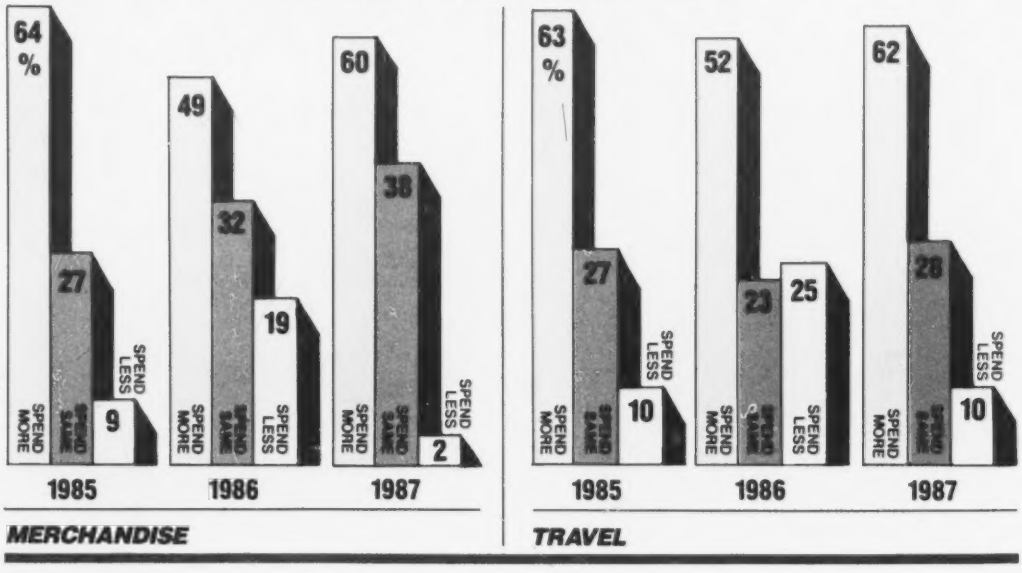
Respondents report expenditures for merchandise programs this year up 5.6 percent, compared with 5.2 percent last year. Travel spending is up 7.4 percent this year, compared with 5.6 percent. This year's survey results are based on the reporting of 223 companies.

About 60 percent of the respondents indicate that they will spend more this year for merchandise offers. On the travel side, 62 percent report an increase. A record-low 2 percent say they will spend less for merchandise, and only 10 percent will reduce travel budgets.

Consistency in performance marks the recent

LOOKING AHEAD . . .

"THIS YEAR, WHAT ARE YOUR DEALER INCENTIVE PLANS?"



FACTS UPDATE

history of dealer incentives—with average sales gains and costs holding steady for three consecutive years.

Readers in the most recent survey report an average increase in sales volume of 18.4 percent during a dealer promotion. This is precisely the same result found in IM's 1986 study and only a hair below the 18.7 percent experienced in 1985. This period of stable performance follows seven years of sales gains in the range of 15 percent to 17 percent, with the sole exception of an 18.4 percent average in 1980. The median gain rose to 15 percent, from 12 or 13 percent in recent years.

Overall program costs, as measured by percentage of incremental sales, also have shown sustained improvement in the last three years. This is the fourth straight year in which respondents have spent a median of 10 percent of incremental sales on dealer incentives, compared with up to 13 percent in the early 1980's.

Also relatively consistent over the last few years is the level of dealer participation—averaging 50 percent or better after several years of depressed response. Higher acceptance of the offers contributes to better results.

The small overall growth of 5.3 percent last year is deceptive because most industries increased use of dealer incentives fairly substantially. In fact, 11 reported double-digit increases. However, three of the six industries reporting declines in usage were the first, second and fifth largest users. Makers of auto parts, tires and accessories cut back dealer promotion by 4.6 percent; car manufacturers backed off by 3 percent; and farm equipment makers showed a 11.6 percent decline.

Three of the five biggest user industries —automotive parts, cars and farm equipment—cut back dealer promotion expenditures.

The greatest expansion in dealer incentive usage last year occurred in the fields of machinery and supplies, up 33.4 percent, and food products, up 23.8 percent. Machinery makers are relatively small dealer incentive users, while food manufacturers rank sixth in dealer promotion.

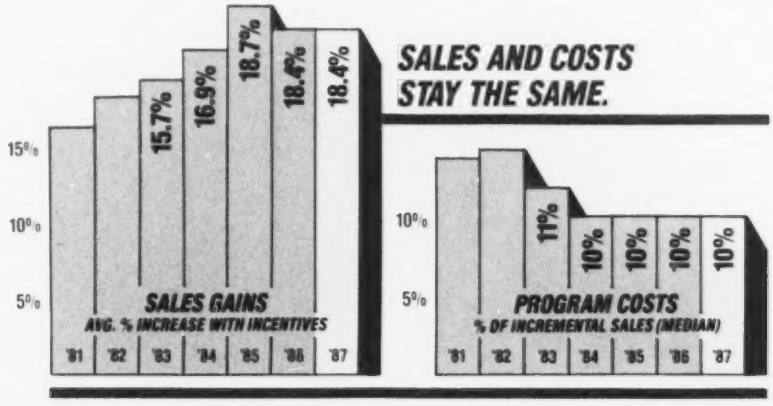
Wholesalers and distributors represent the major group of recipients of dealer incentives, targeted by 50 percent of the executives in this survey. Retailers are the focus of 46 percent; commercial and industrial dealers, 22 percent; service contractors, 18 percent, and all others, 24 percent. The total exceeds 100 percent because of multiple answers.

Of the retailers who are offered incentives, 19 percent are specialty stores; 10 percent, grocers; 6 percent, service stations; 6 percent, variety or department stores, and 5 percent, drugstores.

Why do marketers offer dealer incentives? As usual, this year's list of reasons is headed by the basic goal of most sales executives—to improve overall volume—chosen as a primary objective by 57 percent.

However, far fewer respondents cited this as a primary objective than in past years. In the 1970's, this figure averaged about 80 percent, but it has been declining steadily. This certainly does not mean that fewer marketers want to increase sales but that more marketers recognize that the principal focus must be more specific to achieve success.

The second most important motive for dealer incentives is new product introductions, reported by 39 percent. That is followed by selling new accounts, reported by



FACTS UPDATE

32 percent, and improving morale or good will, indicated by 25 percent.

Almost half of the survey respondents (49 percent) apply the incentive backing to a selected group of products. About 36 percent, however, cover their entire product lines with the program, while the remaining 15 percent direct efforts at a single product.

The users conduct incentive programs with varying frequency. Those who offer merchandise-only incentives run a median of three promotions a year; users of travel awards exclusively, whose campaigns generally run longer, offer one a year. Those who combine merchandise and travel awards tend to schedule their promotions twice a year.

The time to launch a promotion varies considerably according to the company and its product, market and seasonal factors. It also relates to specific objectives: Do you want to bolster a weak season, get ready for a hot one, introduce a product or adjust the product mix with emphasis on special items?

The first quarter of the year is the heaviest period for campaign launches, with two particularly strong months—January, representing 14 percent of all program starts, and March, 10 percent.

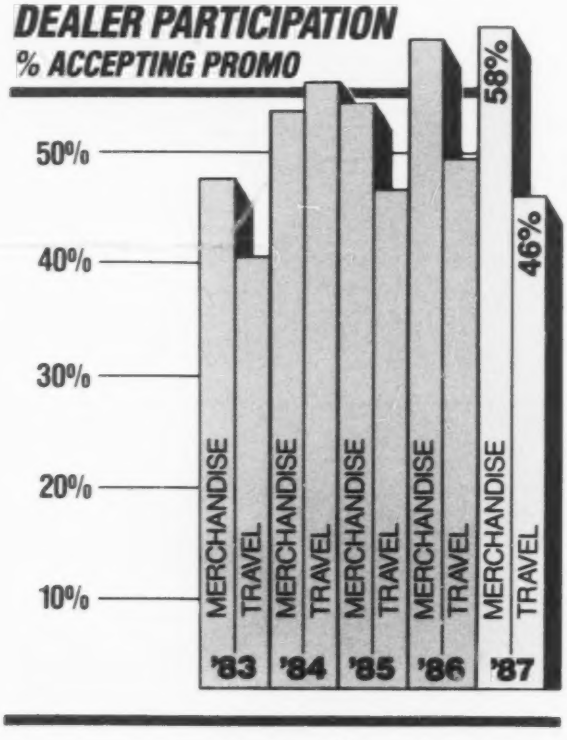
The third quarter represents the second most important launch period: September is the biggest single month, with 15 percent of program starts. The second quarter follows, with June the most important launch month in the period at 9 percent. The fewest programs begin in the fourth quarter, with 7 percent of starts in October. Annual low points occur in August and December, each with just 5 percent of campaign start-ups.

Machinery and food products manufacturers posted the greatest gains in dealer incentive usage.

The executives in this survey told IM that their sales goals averaged 16.9 percent gains during a promotion, with a median 15 percent. The actual average gain was better—18.4 percent—although the median was right on target at 15 percent. These same respondents were disappointed in the previous year, when average sales advanced only 15.7 percent—below their targets.

Results depend a great deal on whether the trade responds and to what extent. Budget allocations are affected not only by the sales outcome but by the percentage of eligible wholesalers, contractors, retailers or other dealers qualifying for awards. With too few active participants, the figures will not add up; too many will play havoc with most budgets.

The average qualification report falls in the neighborhood of 50 percent. This year's survey respondents say, on average, 58 percent accept merchandise offerings and 46 percent earn travel awards. This compares with last year's averages of 57 and 49 percent, respectively.



Planning an incentive program often takes as much time as the actual selling period—sometimes more. In this survey, the average time for planning a merchandise-based campaign is 13 weeks, while the duration of the promotion is nine weeks for special product deals and 14 weeks for contests or sweepstakes.

Users of travel programs spend twice as much time getting ready—26 weeks—and the selling time in the field averages another 26

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weeks. The half-year average, however, obscures the fact that many users conduct year-long travel incentive campaigns.

One executive gets up to two years' mileage out of a travel program that runs about 24 weeks. This manufacturer of recreation vehicles says, "We have five groups of dealers who are eligible for the trip. They are chosen based on last year's performance. We then allow an allocated number of trips per group. In order to continue the contest, there are two qualifying periods based on dollar volume. It is the top dollar-volume dealers for each group for both qualifying periods who are awarded the designated trips. Therefore, it is not solely based on an increase over last year's business, but it will help hold sales."

The method yields sales increases ranging from 10 to 20 percent, with costs up to 20 percent of the incremental gains. About 45 percent of the eligible dealers usually qualify for the group trips, arranged by an incentive firm at a cost of more than $5,000 per couple. The groups consist of more than 300 people.

The respondent complains: "So many of the incentive houses have tunnel vision—they just do what they have been doing for the last several times at a destination and seemingly are not open to different and adventurous events."

Many users have gripes about suppliers. William P. Evers, merchandising manager for the Ford Motor Company in Hackensack, N.J., complains of trouble "obtaining good value and service for the dollars we spend."

The planning process can take as much time as the actual selling period: 13 weeks for merchandise programs and 26 weeks for travel.

He conducts promotions for New York area car and truck dealers, buying travel from full-service incentive firms and merchandise from wholesalers and jobbers. A four- to eight-week merchandise campaign will attract an average of 70 percent of targeted dealers, with awards costing an average of $400. Up to 80 percent qualify for the local travel awards offered in eight- to 12-week promotions.

"So often vendors see a large company coming and try to take advantage," Evers says. "They assume we have money to burn."

The money most users spend this year is a little more than in past reports for merchandise but a bit less for travel awards. Merchandise cost averages $188, compared with $129 a year ago. The median rose to $60 this year after a number of years at $50.

The average expenditure for travel is up to $1,797 from $1,745, but the median spending has dropped to $1,500, where it was in 1985, after jumping up to $1,700 last year. The per-person travel cost averages $1,113, with a median of $1,000. While most trips involve two people, some take singles, which makes the overall average less than double the per-person figure.

Most dealer incentive programs are conducted by manufacturers, but some wholesalers run their own. An incentive travel campaign has its price but also its rewards, according to J. W. Lazor, president of the Edward B. Ward Company, South San Francisco, Calif., a

Types of Award

What to offer and where to get the awards are obvious essentials of incentive programs. There are no right answers, only the right ones for each user in terms of his objective, and audience, product and many other factors. But here is a consensus of the choices made by this year's respondents.

What types of award do you most often use as dealer incentives? (% of total respondents)

46% Single premium or few related items
29% Merchandise from incentive firm's catalog
26% Group trips
25% Individual travel awards
23% Own merchandise catalog or selection

Type of merchandise considered most effective:

55% Home or family items
45% Personal items
21% Business-use items

How merchandise premiums are delivered:

65% Shipped separately
34% Delivered by sales force
7% Packed with product

Type of supplier generally used:
Merchandise awards

45% Wholesaler or premium jobber
38% Direct from manufacturer
24% Manufacturers' rep
21% Full-service incentive agency

Travel awards

29% Make own arrangements
22% Full-service incentive agency
16% Travel wholesaler
8% Travel carrier or hotel

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wholesaler of heating and air conditioning equipment. "When conducting your own trip incentive in lieu of using the manufacturer's," Lazor says, "it is extremely time-consuming if you are to pay attention to detail. Detail is what makes an incentive trip, and you certainly do not want to spend the money and have unhappy customers."

Ward runs a year-long travel campaign for dealers and contractors, spending an average of $3,000 per winner. Lazor estimates sales gains at 5 to 8 percent and spends about 15 percent of incremental sales for the trip. He promotes the trip through his sales force, in dealer sales meetings, in literature with products, and by direct-mail.

Promotion is what makes the incentive work, and users of dealer programs report spending an average of 24 percent of total budgets on it. That brings the cost of a promotion using $100,000 worth of merchandise or travel to a total outlay of about $132,000.

The job of promotion is to overcome inertia in the trade. Jack Peter, vice president of the Quad Omega Corporation, Ho-Ho-Kus, N.J., says the major problem is finding "new and/or imaginative products and travel to new places of interest—recipients have a tendency to give you the old ho-hum."

Peter apparently finds solutions, however, because he reports about 90 percent acceptance by the trade and sales gains of up to 55 percent. The cost is about 17 percent of the sales gain; about 25 percent of that cost goes for promotion.

A Southwestern insurance executive faces the difficulty of "getting a team that averages $126,000 annual income excited to produce more." His answer is several 16-week campaigns each year, offering both merchandise and travel.

Sales executives are increasingly citing specific reasons like launching a new product, instead of "overall volume increase" as their primary goal.

He manages an 80 percent qualification rate and reports sales increases in the range of 5 percent to 10 percent, at a cost of only 5 percent of the extra sales. Broker meetings are the principal means of promotion.

The first promotional route for most users is the company sales force, and a lot often rides on their efforts alone. "Poor follow-up by sales personnel" can plague an incentive program, says Marvin Youngerman, vice president of marketing, Columbus Mills Inc., Columbus, Ga.

Youngerman's only means of promotion is through the sales force. He says 100 percent of targeted carpet dealers responded in the company's latest year-long mostly-merchandise promotion, bringing a 9 percent sales gain at a cost of 15 percent of the incremental volume.

Columbus Mills offered its own catalogue of more than 80 items, plus a Bahamas cruise and a Hawaii trip. A certificate was issued to dealers with every 500-yard purchase of carpet and was redeemable for items ranging from a man's shirt or a clock radio for one certificate to an outboard motor or 27-inch television set for 60. The trips required 80 and 100 certificates, respectively.

Sales-force promotion of the incentive campaign is used by 71 percent of the executives surveyed. Direct-mail ranks second, at 47 percent, followed by sales meetings, 36 percent; literature with product, 31 percent; trade shows, 20 percent; wholesalers or brokers, 11 percent, and trade publications, 6 percent.

Many decisions at various levels go into every incentive promotion, but for the final say, the buck usually stops at the top. The president, chief executive officer, executive vice president or general

WHAT CAN DEALER INCENTIVES DO?

% OF RESPONDENTS REPORTING EACH OBJECTIVE

57%	INCREASE OVERALL VOLUME	21%	OFFSET COMPETITION
39%	INTRODUCE NEW PRODUCT	20%	BUILD DEALER TRAFFIC
32%	SELL NEW ACCOUNTS	19%	BOLSTER SLOW SEASON
25%	IMPROVE MORALE/ GOOD WILL	14%	PREPARE FOR STRONG SEASON
22%	MOVE FULL LINE/ SLOW ITEMS	10%	SUPPORT CONSUMER PROMOTION

Inevitably, of course, business errors will occur and the wise manager will try to find the proper lessons in them. **But the trick is to learn most lessons from the experiences of others. Managers who have learned much from personal experience in the past usually are destined to learn much from personal experience in the future.**

Warren E. Buffett
Chairman of the Board,
Berkshire Hathaway Inc.

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FACTS UPDATE

Unit cost for merchandise averages $188, up from $129 a year ago; travel averages $1,797, up from $1,745.

manager make the final decision, according to 62 percent of survey respondents. Another 28 percent leave the last word to a director of sales or marketing. Advertising or sales-promotion heads give the final word in only 5 percent of cases, as do product or merchandising managers.

These same executives have the task of evaluating promotions at the end. And it is not easy. "The problem is determining the actual percentage of sales increase that is due to the incentive effort," says a Southeastern electronics manufacturer. "Our dealers are distributors and not too communicative about sales dollars."

The company conducts merchandise incentive programs for wholesalers at a cost of only 1 percent of added sales. About 40 percent of those eligible earn awards.

"When you conduct continuous programs and have some type of incentive campaign in operation each month, it is more difficult to evaluate effectiveness," says an appliance manufacturer. The company conducts four or five promotions a year, which run 13 weeks at a time and provide a 5 percent sales gain.

"In 17 years, we have never been able to pinpoint with any accuracy the percentage of dealers whose basic motivation in buying from us is the possibility of earning a trip," notes a New England carpet distributor. Ten percent earn trips in the campaigns which promote all of the company's items for 48 weeks at a cost of about 4 percent of sales. ■